



**SEKHUKHUNE**  
District Municipality

Sekhukhune District Municipality  
(Registration number DC47)  
Financial statements  
for the year ended 30 June 2016

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2016

## General Information

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### Legal form of entity

District Municipality

### Mayoral committee

Executive Mayor

Cllr Magabe MD  
Cllr Mathebe NC - Speaker

Councillors

Cllr Nchabeleng TL  
Cllr Seloane LM  
Cllr Mathale SA  
Cllr Mokoka KSD  
Cllr Matlala RM  
Cllr Lekola MF

Cllr Mamahlako M  
Cllr Kgoloko M

Cllr Thamaga MM  
Cllr Sihlangu TL  
Cllr Mabuza DL  
Cllr Mabuza DL  
Cllr Mafefe OH  
Cllr Makua TH  
Cllr Mokwana LW

Cllr Tala DL  
Cllr Makitla RJ  
Cllr Thobejane MD  
Cllr Tau LC  
Cllr Thokoane MJ  
Cllr Tshoma LH  
Cllr Masemola HR  
Cllr Mashabela MR  
Cllr Matjomane GD  
Cllr Moifo KH

### Grading of local authority

Grade 5 Municipality

### Chief Finance Officer (CFO)

Lekubu Charles Malema  
Acting CFO

### Accounting Officer

MF Mokoko

### Business address

03 West Street  
Groblersdal  
0470

### Postal address

Private Bax X8611  
Groblersdal  
0470

### Bankers

Standard Bank

### Auditors

Auditor General South Africa - Limpopo Region  
Registered Auditors

# Sekhukhune District Municipality

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The reports and statements set out below comprise the financial statements presented to the provincial legislature:

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# **Sekhukhune District Municipality**

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## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Constitution of SA, to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 5 to 43, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

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**MF Mokoko**  
**Accounting Officer**

# Sekhukhune District Municipality

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## Audit Committee Report

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We are pleased to present our report for the financial year ended 30 June 2016.

### Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year four meetings were held.

Name of member	Number of meetings attended
Mr K Ramukumba (Chairperson)	5
Mr R Mnisi	3
Ms SM Makinta	3
Mr L Lankalebalela	7
Ms S Mabilane	7

### Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 38(10)(1) of the MFMA and Treasury Regulation 3.1.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

### The effectiveness of internal control

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

### Evaluation of financial statements

The audit committee has:

- reviewed and discussed the audited financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices (delete if not applicable);
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the financial statements, and are of the opinion that the audited financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

### Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

### Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

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**Chairperson of the Audit Committee**

**Date:** \_\_\_\_\_

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Assets</b>			
Current Assets			
Inventories	4	9 700 866	9 301 705
Other financial assets	3	1 000	1 000
Receivables from exchange transactions	5	62 627 361	48 126 530
Receivables from non-exchange transactions	6	77 285 468	70 523 429
VAT receivable	7	44 876 615	8 183 277
Cash and cash equivalents	8	45 794 149	202 335 812
		<b>240 285 459</b>	<b>338 471 753</b>
Non-Current Assets			
Property, plant and equipment	2	2 427 864 760	2 152 722 168
Non-Current Assets		2 427 864 760	2 152 722 168
Current Assets		240 285 459	338 471 753
<b>Total Assets</b>		<b>2 668 150 219</b>	<b>2 491 193 921</b>
<b>Liabilities</b>			
Current Liabilities			
Payables from exchange transactions	13	205 084 303	195 323 471
Consumer deposits	14	2 105 503	1 576 624
Unspent conditional grants and receipts	10	19 364 750	177 467 309
Provisions	11	13 980 857	13 983 631
Borrowings	12	879 765	813 392
Bank overdraft	8	44 880 542	6 991 232
		<b>286 295 720</b>	<b>396 155 659</b>
Non-Current Liabilities			
Provisions	11	39 400 351	26 484 691
Borrowings	12	1 456 064	2 335 829
		<b>40 856 415</b>	<b>28 820 520</b>
Non-Current Liabilities		40 856 415	28 820 520
Current Liabilities		286 295 720	396 155 659
<b>Total Liabilities</b>		<b>327 152 135</b>	<b>424 976 179</b>
Assets		2 668 150 219	2 491 193 921
Liabilities		(327 152 135)	(424 976 179)
<b>Net Assets</b>		<b>2 340 998 084</b>	<b>2 066 217 742</b>
Accumulated surplus	9	2 340 998 084	2 066 217 742

\* See Note 34

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2016

## Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	16	51 902 077	42 716 952
Interest received - Outstanding receivables		7 414 738	4 677 111
Other income		10 025 675	2 029 348
Retention, Creditors and water balance write off	18	2 894 320	53 958 838
Interest received - investment		16 753 237	11 388 222
<b>Total revenue from exchange transactions</b>		<b>88 990 047</b>	<b>114 770 471</b>
<b>Revenue from non-exchange transactions</b>			
<b>Transfer revenue</b>			
Government grants & subsidies	17	1 197 085 515	775 010 404
Fines		7 585	1 878
<b>Total revenue from non-exchange transactions</b>		<b>1 197 093 100</b>	<b>775 012 282</b>
		88 990 047	114 770 471
		1 197 093 100	775 012 282
<b>Total revenue</b>	15	<b>1 286 083 147</b>	<b>889 782 753</b>
<b>Expenditure</b>			
Personnel	20	(303 671 609)	(266 448 445)
Remuneration of councillors	21	(16 278 654)	(10 600 599)
Transfers - Community Projects		-	(7 890 990)
Depreciation and amortisation	23	(63 833 002)	(63 438 857)
Impairment loss/ Reversal of impairments	24	(20 378)	(23 482 655)
Finance costs	25	(1 545 985)	(864 288)
Debt impairment	22	(10 897 601)	(72 229 714)
Repairs and maintenance		(44 649 049)	(40 025 915)
Bulk purchases	29	(142 336 733)	(109 589 636)
VIP Sanitation	27	(242 485 014)	(86 616 741)
Grants and subsidies paid	28	(4 907 641)	(2 649 160)
General Expenses	19	(186 940 073)	(176 303 287)
<b>Total expenditure</b>		<b>(1 017 565 739)</b>	<b>(860 140 287)</b>
		-	-
Total revenue		1 286 083 147	889 782 753
Total expenditure		(1 017 565 739)	(860 140 287)
<b>Operating surplus</b>		<b>268 517 408</b>	<b>29 642 466</b>
(Loss) gain on disposal of assets and liabilities		(735 405)	5 951
Surplus before taxation		267 782 003	29 648 417
<b>Surplus for the year</b>		<b>267 782 003</b>	<b>29 648 417</b>

\* See Note 34

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## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2014</b>	<b>2 036 569 325</b>	<b>2 036 569 325</b>
Changes in net assets		
Surplus for the year	29 648 417	29 648 417
Total changes	29 648 417	29 648 417
Opening balance as previously reported	2 096 492 467	2 096 492 467
Adjustments		
Prior year adjustments	(23 276 386)	(23 276 386)
<b>Restated* Balance at 01 July 2015 as restated*</b>	<b>2 073 216 081</b>	<b>2 073 216 081</b>
Changes in net assets		
Surplus for the year	267 782 003	267 782 003
Total changes	267 782 003	267 782 003
<b>Balance at 30 June 2016</b>	<b>2 340 998 084</b>	<b>2 340 998 084</b>

Note(s)

\* See Note 34



# Sekhukhune District Municipality

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## Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		30 053 776	43 711 104
Grants		1 038 983 456	786 942 108
Interest income		16 753 237	11 388 222
Other receipts		(26 134 311)	261 365 849
		1 059 656 158	1 103 407 283
<b>Payments</b>			
Employee costs		(307 037 377)	(272 573 184)
Suppliers		(604 610 051)	(477 929 408)
Finance costs		(1 545 985)	(864 288)
		(913 193 413)	(751 366 880)
Total receipts		1 059 656 158	1 103 407 283
Total payments		(913 193 413)	(751 366 880)
<b>Net cash flows from operating activities</b>	30	<b>146 462 745</b>	<b>352 040 403</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2	(340 095 467)	(185 201 987)
Proceeds from sale of property, plant and equipment	2	15 141	24 219
<b>Net cash flows from investing activities</b>		<b>(340 080 326)</b>	<b>(185 177 768)</b>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		-	(45 014 138)
Movement in borrowings		(813 392)	(752 026)
Finance lease payments		-	(179 905)
<b>Net cash flows from financing activities</b>		<b>(813 392)</b>	<b>(45 946 069)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(194 430 973)</b>	<b>120 916 566</b>
Cash and cash equivalents at the beginning of the year		195 344 580	74 428 014
<b>Cash and cash equivalents at the end of the year</b>	8	<b>913 607</b>	<b>195 344 580</b>

\* See Note 34

# Sekhukhune District Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	48 510 000	(5 120 000)	<b>43 390 000</b>	51 902 077	<b>8 512 077</b>	Note 48
Interest received (trading)	3 500 000	2 500 000	<b>6 000 000</b>	7 414 738	<b>1 414 738</b>	
Other income	55 598 000	25 415 000	<b>81 013 000</b>	10 025 675	<b>(70 987 325)</b>	Note 48
Other income	-	-	-	2 894 320	<b>2 894 320</b>	
Interest received - investment	8 000 000	3 000 000	<b>11 000 000</b>	16 753 237	<b>5 753 237</b>	Note 48
<b>Total revenue from exchange transactions</b>	<b>115 608 000</b>	<b>25 795 000</b>	<b>141 403 000</b>	<b>88 990 047</b>	<b>(52 412 953)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Government grants & subsidies	1 619 678 000	(339 000 000)	<b>1 280 678 000</b>	1 197 085 515	<b>(83 592 485)</b>	Note 48
<b>Transfer revenue</b>						
Fines	-	-	-	7 585	<b>7 585</b>	
<b>Total revenue from non-exchange transactions</b>	<b>1 619 678 000</b>	<b>(339 000 000)</b>	<b>1 280 678 000</b>	<b>1 197 093 100</b>	<b>(83 584 900)</b>	
'Total revenue from exchange transactions'	115 608 000	25 795 000	<b>141 403 000</b>	88 990 047	<b>(52 412 953)</b>	
'Total revenue from non-exchange transactions'	1 619 678 000	(339 000 000)	<b>1 280 678 000</b>	1 197 093 100	<b>(83 584 900)</b>	
<b>Expenditure</b>						
Personnel	(297 433 000)	12 303 000	<b>(285 130 000)</b>	(303 671 609)	<b>(18 541 609)</b>	
Remuneration of councillors	(11 162 000)	(3 117 000)	<b>(14 279 000)</b>	(16 278 654)	<b>(1 999 654)</b>	
Depreciation and amortisation	(58 100 000)	(2 300 000)	<b>(60 400 000)</b>	(63 833 002)	<b>(3 433 002)</b>	
Impairment loss/ Reversal of impairments	-	-	-	(20 378)	<b>(20 378)</b>	
Finance costs	(758 000)	-	<b>(758 000)</b>	(1 545 985)	<b>(787 985)</b>	
Debt impairment	(9 872 000)	-	<b>(9 872 000)</b>	(10 897 601)	<b>(1 025 601)</b>	
Repairs and maintenance	(24 850 000)	(32 010 000)	<b>(56 860 000)</b>	(44 649 049)	<b>12 210 951</b>	
Bulk purchases	(116 935 000)	(3 000 000)	<b>(119 935 000)</b>	(142 336 733)	<b>(22 401 733)</b>	
VIP Sanitation	(277 863 076)	-	<b>(277 863 076)</b>	(242 485 014)	<b>35 378 062</b>	
Grants and subsidies paid	(5 000 000)	-	<b>(5 000 000)</b>	(4 907 641)	<b>92 359</b>	
General Expenses	(401 507 000)	(49 166 000)	<b>(450 673 000)</b>	(186 940 073)	<b>263 732 927</b>	
<b>Total expenditure</b>	<b>(1 203 480 076)</b>	<b>(77 290 000)</b>	<b>(1 280 770 076)</b>	<b>(1 017 565 739)</b>	<b>263 204 337</b>	
	1 735 286 000	(313 205 000)	<b>1 422 081 000</b>	1 286 083 147	<b>(135 997 853)</b>	
	(1 203 480 076)	(77 290 000)	<b>(1 280 770 076)</b>	(1 017 565 739)	<b>263 204 337</b>	
<b>Operating surplus</b>	<b>531 805 924</b>	<b>(390 495 000)</b>	<b>141 310 924</b>	<b>268 517 408</b>	<b>127 206 484</b>	
Loss on disposal of assets and liabilities	-	-	-	(735 405)	<b>(735 405)</b>	
	531 805 924	(390 495 000)	<b>141 310 924</b>	268 517 408	<b>127 206 484</b>	
	-	-	-	(735 405)	<b>(735 405)</b>	
<b>Surplus before taxation</b>	<b>531 805 924</b>	<b>(390 495 000)</b>	<b>141 310 924</b>	<b>267 782 003</b>	<b>126 471 079</b>	
Deficit before taxation	531 805 924	(390 495 000)	<b>141 310 924</b>	267 782 003	<b>126 471 079</b>	

## Sekhukhune District Municipality

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### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Taxation	-	-	-	-	-	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>531 805 924</b>	<b>(390 495 000)</b>	<b>141 310 924</b>	<b>267 782 003</b>	<b>126 471 079</b>	

# Sekhukhune District Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	3 100 000	-	3 100 000	9 700 866	6 600 866	Appendix C
Other financial assets	-	-	-	1 000	1 000	
Receivables from exchange transactions	103 077 000	7 000 000	110 077 000	62 627 361	(47 449 639)	
Receivables from non-exchange transactions	42 554 000	-	42 554 000	77 285 468	34 731 468	
VAT receivable	-	-	-	44 876 615	44 876 615	
Cash and cash equivalents	321 236 000	(20 344 000)	300 892 000	45 794 149	(255 097 851)	
	<b>469 967 000</b>	<b>(13 344 000)</b>	<b>456 623 000</b>	<b>240 285 459</b>	<b>(216 337 541)</b>	

##### Non-Current Assets

Property, plant and equipment	3 563 724 000	536 276 000	4 100 000 000	2 427 864 760	(1 672 135 240)	
Non-Current Assets	469 967 000	(13 344 000)	456 623 000	240 285 459	(216 337 541)	
Current Assets	3 563 724 000	536 276 000	4 100 000 000	2 427 864 760	(1 672 135 240)	
Non-current assets held for sale (and) (assets of disposal groups)	-	-	-	-	-	
<b>Total Assets</b>	<b>4 033 691 000</b>	<b>522 932 000</b>	<b>4 556 623 000</b>	<b>2 668 150 219</b>	<b>(1 888 472 781)</b>	

#### Liabilities

##### Current Liabilities

Payables from exchange transactions	290 423 000	(83 300 000)	207 123 000	205 084 303	(2 038 697)	
Consumer deposits	-	-	-	2 105 503	2 105 503	
Unspent conditional grants and receipts	-	-	-	19 364 750	19 364 750	
Provisions	-	-	-	13 980 857	13 980 857	
Borrowings	695 000	-	695 000	879 765	184 765	
Bank overdraft	-	-	-	44 880 542	44 880 542	
	<b>291 118 000</b>	<b>(83 300 000)</b>	<b>207 818 000</b>	<b>286 295 720</b>	<b>78 477 720</b>	

##### Non-Current Liabilities

Provisions	20 850 000	(4 400 000)	16 450 000	39 400 351	22 950 351	
Borrowings	4 240 000	-	4 240 000	1 456 064	(2 783 936)	
	<b>25 090 000</b>	<b>(4 400 000)</b>	<b>20 690 000</b>	<b>40 856 415</b>	<b>20 166 415</b>	
	291 118 000	(83 300 000)	207 818 000	286 295 720	78 477 720	
	25 090 000	(4 400 000)	20 690 000	40 856 415	20 166 415	
	-	-	-	-	-	
<b>Total Liabilities</b>	<b>316 208 000</b>	<b>(87 700 000)</b>	<b>228 508 000</b>	<b>327 152 135</b>	<b>98 644 135</b>	
Assets	4 033 691 000	522 932 000	4 556 623 000	2 668 150 219	(1 888 472 781)	
Liabilities	(316 208 000)	87 700 000	(228 508 000)	(327 152 135)	(98 644 135)	
<b>Net Assets</b>	<b>3 717 483 000</b>	<b>610 632 000</b>	<b>4 328 115 000</b>	<b>2 340 998 084</b>	<b>(1 987 116 916)</b>	

## Sekhukhune District Municipality

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### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	3 717 483 000	610 632 000	<b>4 328 115 000</b>	2 340 998 084	<b>(1 987 116 916)</b>	

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Constitution of SA.

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

#### 1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

##### Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

##### Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

# Sekhukhune District Municipality

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## Accounting Policies

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 11 - Provisions.

#### Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.3 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

The revaluation surplus included in net assets related to a specific item of property, plant and equipment is transferred directly to accumulated surplus or deficit when the asset is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	15 - 30 years
Furniture and fixtures	3 - 10 Years
Motor vehicles	5 - 7 Years
Office equipment	3 - 10 Years
Infrastructure	
• Roads, pavements, bridges and storm water	1 - 100 Years
• Water, resevoirs and reticulation infrastructure	5 - 80 Years
• Street names, signs and parking meters	7 - 20 Years
Community	
• Sport Fields	20 - 30 Years
• Parks and gardens	10 - 30 Years
• Community halls	30 Years
• Security Measurers	3 - 10 Years
• Specialised Vehicles	10 - 20 Years

The residual value, the useful life and depreciation method of each asset are reviewed at least at of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.



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Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.3 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property, plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

### 1.5 Financial instruments

### 1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

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Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Leases (continued)

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

The cost of inventories for Operation and Maintenance materials is assigned using the first in, first out (FIFO) formula.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.8 Impairment of cash-generating assets (continued)

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

### 1.9 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### 1.10 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.10 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.11 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.11 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

### 1.12 Revenue from non-exchange transactions

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.13 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

### 1.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.8 and . In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.15 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.16 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the MFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.19 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015-07-01 to 2016-06-30.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

# **Sekhukhune District Municipality**

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Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1.20 Related parties**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.



# Sekhukhune District Municipality

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## Notes to the Financial Statements

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Figures in Rand

2016

2015

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# Sekhukhune District Municipality

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## Notes to the Financial Statements

Figures in Rand

### 2. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	12 860 001	-	12 860 001	12 860 001	-	12 860 001
Buildings	23 372 307	(12 558 277)	10 814 030	23 372 307	(10 981 794)	12 390 513
Furniture and fixtures	4 905 793	(3 287 603)	1 618 190	4 164 223	(2 806 539)	1 357 684
Motor vehicles	4 610 599	(1 689 949)	2 920 650	4 610 599	(1 303 056)	3 307 543
Office equipment	9 806 176	(7 719 120)	2 087 056	8 349 734	(6 129 800)	2 219 934
Leasehold improvements	25 300	(441)	24 859	-	-	-
Roads Infrastructure	65 704 027	(24 272 996)	41 431 031	65 704 027	(20 154 620)	45 549 407
Community Assets	5 184 955	(2 218 575)	2 966 380	5 184 955	(2 005 763)	3 179 192
Water Infrastructure	1 421 762 147	(351 923 209)	1 069 838 938	1 177 136 037	(300 371 753)	876 764 284
Sanitation Infrastructure	67 205 815	(23 186 678)	44 019 137	58 177 130	(20 755 945)	37 421 185
Bins and containers	199 045	(120 826)	78 219	198 141	(93 192)	104 949
Leased Assets	5 213 882	(5 213 882)	-	5 213 882	(5 213 882)	-
Emergency Assets	1 471 272	(1 379 725)	91 547	1 471 272	(1 110 809)	360 463
Assets under construction	1 239 114 722	-	1 239 114 722	1 157 207 013	-	1 157 207 013
<b>Total</b>	<b>2 861 436 041</b>	<b>(433 571 281)</b>	<b>2 427 864 760</b>	<b>2 523 649 321</b>	<b>(370 927 153)</b>	<b>2 152 722 168</b>

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

### 2. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	12 860 001	-	-	-	-	-	12 860 001
Buildings	12 390 513	-	-	-	(1 576 483)	-	10 814 030
Furniture and fixtures	1 357 684	1 075 375	(74 111)	-	(740 758)	-	1 618 190
Motor vehicles	3 307 543	-	-	-	(386 893)	-	2 920 650
Office equipment	2 219 934	1 722 012	(22 065)	-	(1 832 825)	-	2 087 056
Leasehold improvements	-	25 300	-	-	(441)	-	24 859
Roads Infrastructure	45 549 407	-	-	-	(4 118 376)	-	41 431 031
Community Assets	3 179 192	-	-	-	(212 812)	-	2 966 380
Water Infrastructure	876 764 284	37 077 560	(654 317)	208 908 191	(52 236 402)	(20 378)	1 069 838 938
Sanitation Assets	37 421 185	8 669 770	-	358 915	(2 430 733)	-	44 019 137
Bins and containers	104 949	1 685	(53)	-	(28 362)	-	78 219
Emergency Equipment	360 463	-	-	-	(268 916)	-	91 547
Assets under construction	1 157 207 013	291 174 814	-	(209 267 105)	-	-	1 239 114 722
	<b>2 152 722 168</b>	<b>339 746 516</b>	<b>(750 546)</b>	<b>1</b>	<b>(63 833 001)</b>	<b>(20 378)</b>	<b>2 427 864 760</b>

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

### 2. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	12 860 001	-	-	-	-	-	-	12 860 001
Buildings	13 028 311	1 458 437	-	(832 050)	-	(1 183 939)	(80 246)	12 390 513
Furniture and fixtures	1 679 722	346 793	(5 514)	-	-	(663 317)	-	1 357 684
Motor vehicles	3 705 404	-	-	-	-	(397 861)	-	3 307 543
Office equipment	3 383 569	708 186	(9 004)	-	-	(1 862 817)	-	2 219 934
Infrastructure - Roads	48 946 127	-	-	-	-	(3 361 401)	(35 319)	45 549 407
Community	3 425 967	-	-	-	-	(246 775)	-	3 179 192
Water Infrastructure	887 688 412	7 915 060	-	34 274 217	-	(52 397 111)	(716 294)	876 764 284
Sanitation Assets	37 781 580	126 470	-	2 748 449	-	(3 069 944)	(165 370)	37 421 185
Bins and containers	132 452	750	-	-	-	(28 253)	-	104 949
Leased assets	17 720	-	-	-	-	(17 720)	-	-
Emergency Assets	644 545	6 246	(3 750)	-	-	(286 578)	-	360 463
Assets under construction	1 046 861 845	169 026 485	-	(44 081 606)	7 885 715	-	(22 485 426)	1 157 207 013
	<b>2 060 155 655</b>	<b>179 588 427</b>	<b>(18 268)</b>	<b>(7 890 990)</b>	<b>7 885 715</b>	<b>(63 515 716)</b>	<b>(23 482 655)</b>	<b>2 152 722 168</b>

#### Other information

#### Property, plant and equipment fully depreciated and still in use (Gross carrying amount)

Property, plant and equipment class 1 - 2 835 355

#### Details of properties

The municipality owns the following properties:

Groblersdal Municipal office - Back office/Erf No: 585

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>2. Property, plant and equipment (continued)</b>		
A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.		
<b>3. Other financial assets</b>		
<b>Designated at fair value</b>		
Investment - Municipal Entity	1 000	1 000
The municipality is a sole shareholder of Sekhukhune Development Agency		
	1 000	1 000
	-	-
	-	-
<b>Current assets</b>		
Designated at fair value	1 000	1 000
Non-current assets	-	-
Current assets	1 000	1 000
<b>4. Inventories</b>		
Consumable stores	1 211 465	1 154 177
Maintenance materials	7 561 169	6 698 355
Water	928 232	1 449 173
	<b>9 700 866</b>	<b>9 301 705</b>

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 5. Receivables from exchange transactions

Trade debtors	62 627 361	48 126 530
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Summary of trade and other receivables

Trade and receivables at 30 June 2016	Gross Debtors	Provision for Doubtful Debts	Net Balances
Water	110 061 960	(54 043 754)	56 018 206
Sewerage	16 051 433	(9 442 278)	6 609 155
	<b>126 113 393</b>	<b>(63 486 032)</b>	<b>62 627 361</b>

Trade and receivables at 30 June 2015	Gross Debtors	Provision for Doubtful Debts	Net Balances
Water	90 994 462	(47 789 073)	43 205 389
Sewerage	13 270 630	(8 349 489)	4 921 141
	<b>104 265 092</b>	<b>(56 138 562)</b>	<b>48 126 530</b>

	Sewerage		Water	
Figures in Rand	2016	2015	2016	2015
Current	726 360	1 177 560	4 979 531	3 862 737
31-90 days	2 172 534	2 552 980	14 893 729	9 052 410
91-120 days	687 449	484 939	4 712 782	2 735 387
121-180 Days	447 779	458 165	3 069 728	2 573 895
181 Days +	12 017 311	8 596 987	82 406 190	72 770 033
Subtotal	16 051 433	13 270 631	110 061 960	90 994 462
Provision for doubtful debts	(9 442 278)	(8 349 489)	(54 043 754)	(47 789 073)
	<b>6 609 155</b>	<b>4 921 142</b>	<b>56 018 206</b>	<b>43 205 389</b>

The above shows trade receivables ageing per service type

### Trade receivables ageing per customer classification

2016	Government departments	Business/Commercial	Households	Total
Current (0-30 days)	251 262	2 233 463	3 221 166	5 705 891
31-90 days	467 746	7 318 519	9 279 999	17 066 264
91-120 Days	94 019	1 429 151	1 697 156	3 220 326
121-180 Days	397 882	3 582 652	4 937 204	8 917 738
+ 180 Days	3 897 154	9 067 817	78 238 203	91 203 174
Subtotal	5 108 063	23 631 602	97 373 728	126 113 393
Less Provision for doubtful debts	-	(14 360 541)	(49 125 491)	(63 486 032)
	<b>5 108 063</b>	<b>9 271 061</b>	<b>48 248 237</b>	<b>62 627 361</b>

2015	Government departments	Business/Commercial	Households	Total
Current (0-30 days)	245 360	1 732 795	3 260 469	5 238 624
31-90 days	395 686	3 810 624	6 809 168	11 015 478
91-120 Days	94 019	1 429 151	1 697 156	3 220 326
121-180 Days	87 662	1 525 504	1 418 895	3 032 061
+ 180 Days	4 338 944	13 649 260	63 770 400	81 758 604

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>5. Receivables from exchange transactions (continued)</b>		
Subtotal	5 161 671	22 147 334
Less Provision for doubtful debts	- (12 698 543)	(43 440 019)
	<b>5 161 671</b>	<b>9 448 791</b>
	<b>33 516 069</b>	<b>48 126 531</b>

### Fair value of trade and other receivables

#### Trade and other receivables impaired

As of 30 June 2016, trade and other receivables of R 7 347 470 (2015: R 28 588 120) were impaired and provided for.

The amount of the provision was R (63 486 032) as of 30 June 2016 (2015: R (56 138 562)).

#### Reconciliation of provision for impairment of trade and other receivables

Opening balance	56 138 562	27 550 441
Provision for impairment	7 347 470	28 588 121
	<b>63 486 032</b>	<b>56 138 562</b>

### 6. Receivables from non-exchange transactions

Guarantees	27 665 230	27 665 230
DWA - RBIG funds	47 139 224	36 289 607
Other debtors	2 481 014	6 568 592
	<b>77 285 468</b>	<b>70 523 429</b>

#### Guarantees

A bank guarantee amounting to R 150 990 959.40 for MIG grant was made for purchase of materials. The payment is released by the bank after the municipality having authorised the payment. The transfer is classified as a debtor. The amount represents the balance outstanding after part materials delivered and part guarantee amount released. The term of the guarantee is up to the completion of the project. Interest and cost of guarantees are borne by the service provider. We are in the process of redeeming the remaining balance after the projects were completed.

### 7. VAT receivable

VAT	44 876 615	8 183 277
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South African Revenue Services has not paid out refunds for four months starting from March 2016 to June 2016 due to ongoing audit process.

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

Short-term deposits	45 794 149	202 335 812
Bank overdraft	(44 880 542)	(6 991 232)
	<b>913 607</b>	<b>195 344 580</b>
Current assets	45 794 149	202 335 812
Current liabilities	(44 880 542)	(6 991 232)
	<b>913 607</b>	<b>195 344 580</b>

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand

2016

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### 8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
Standard bank Primary Account	35 667 070	18 745 951	68 921 451	(44 880 542)	(6 991 232)	68 877 931
ABSA Charity Account	-	-	5 672	-	-	5 672
FNB Call	-	1 835 943	1 696 583	-	1 835 943	1 696 583
Nedbank call account	10 791 348	167 406 093	32 301	11 049 160	168 179 109	32 301
ABSA Call account	442 560	263 130	-	445 033	263 645	-
Standard bank call account	34 299 956	32 057 115	449 248	34 299 956	32 057 115	449 248
FNB Call account No 2	-	-	3 249 372	-	-	3 249 372
Stanlib	-	-	116 905	-	-	116 905
<b>Total</b>	<b>81 200 934</b>	<b>220 308 232</b>	<b>74 471 532</b>	<b>913 607</b>	<b>195 344 580</b>	<b>74 428 012</b>

### 9. Accumulated surplus

### 10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant	16 183 843	160 287 608
Water Services Operating Grant	3 180 907	15 778 738
Rural Roads Assets Management System Grant	-	222 307
Rural Household Infrastructure Grant	-	1 178 656
	<b>19 364 750</b>	<b>177 467 309</b>

See note 19 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.



# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 11. Provisions

#### Reconciliation of provisions - 2016

	Opening Balance	Utilised during the year	Change in discount factor	Total
Leave Provision	22 047 567	218 389	-	22 265 956
Rehabilitation of landfill site provision	9 973 805	9 125 041	-	19 098 846
Long Service Awards Provision	8 446 950	4 060 476	(491 020)	12 016 406
	<b>40 468 322</b>	<b>13 403 906</b>	<b>(491 020)</b>	<b>53 381 208</b>
Non-current liabilities			39 400 351	26 484 691
Current liabilities			13 980 857	13 983 631
			<b>53 381 208</b>	<b>40 468 322</b>

#### Environmental rehabilitation provision

The provision is the estimate for the closure and capping of Malogeng and JaneFurse Landfill sites at closure in terms of minimum requirements for Waste Disposal by landfill (Department of Water and Affairs and Forestry, 1998 - DWA-MRWL).

A discount rate of 8.45% and average inflation rate of 6.20% was used.

#### Leave Provision

The provision is the value of unused leave liability at year end. The following assumptions were used in determining the leave liability:

The discount rate of 8.79% and general salary inflation at 7.46%

#### Long service awards provision

The provision is the value of long service award liability that is expected to be payable under the municipality's current arrangements and as per condition of service approved by SALGBC. The following assumptions were used in determining the leave liability:

The discount rate of 8.55% and general salary inflation at 7.20%

### 12. Borrowings

Figures in Rand	2016	2015
Annuity loans	2 335 829	3 149 221
Subtotal	2 335 829	3 149 221
Short term portion	(879 765)	(813 392)
	<b>1 456 064</b>	<b>2 335 829</b>

#### Anglo Platinum Loan

An unsecured loan of R 16 280 716 bearing interest at a fixed rate of 8%, repayable semi-annually in equal instalments of capital, with interest on the reducing balance. The loan will be fully payable on 31st December 2018

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 13. Payables from exchange transactions

Trade payables	79 394 298	92 522 421
Payments received in advance	3 267 943	1 450 104
Retention	114 627 518	93 927 050
Staff bonus accrual	6 581 943	6 003 959
Other creditors	1 212 601	1 419 937
	<b>205 084 303</b>	<b>195 323 471</b>

### 14. Consumer deposits

Water	2 105 503	1 576 624
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Consumers are required to pay a deposit when accounts are opened. The deposits are repayable when provision of services to the consumer cease.

### 15. Revenue

Service charges	51 902 077	42 716 952
Interest received (trading)	7 414 738	4 677 111
Other income	10 025 675	2 029 348
Bad debt recovered	2 894 320	53 958 838
Interest received - investment	16 753 237	11 388 222
Government grants & subsidies	1 197 085 515	775 010 404
Fines	7 585	1 878
	<b>1 286 083 147</b>	<b>889 782 753</b>

**The amount included in revenue arising from exchanges of goods or services are as follows:**

Service charges	51 902 077	42 716 952
Interest received (trading)	7 414 738	4 677 111
Other income 1	10 025 675	2 029 348
Bad debt recovered	2 894 320	53 958 838
Interest received - investment	16 753 237	11 388 222
	<b>88 990 047</b>	<b>114 770 471</b>

**The amount included in revenue arising from non-exchange transactions is as follows:**

#### Taxation revenue

#### Transfer revenue

Government grants & subsidies	1 197 085 515	775 010 404
Fines	7 585	1 878
	<b>1 197 093 100</b>	<b>775 012 282</b>

### 16. Service charges

Disconnections	116 421	148 704
Sale of water	41 319 384	33 296 448
Sewerage fees	10 466 272	9 271 800
	<b>51 902 077</b>	<b>42 716 952</b>

The municipality has since 01 July 2014 taken over the water service provision from local municipalities.

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 17. Government grants and subsidies

#### Operating grants

Equitable share	546 538 000	467 170 618
EPWP	1 939 000	3 466 000
MSIG	940 000	934 000
FMG Grant	1 250 000	1 250 000
Department of Health	9 470 301	5 966 667
	<b>560 137 301</b>	<b>478 787 285</b>

#### Capital grants

RBIG	151 266 286	82 278 350
RTSIG	2 291 307	2 233 898
WSOG	14 881 200	8 964 720
MIG	462 830 765	199 424 807
RHIG	5 678 656	3 321 344
	<b>636 948 214</b>	<b>296 223 119</b>

**1 197 085 515 775 010 404**

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	650 548 197	301 873 119
Unconditional grants received	546 538 000	473 137 285
	<b>1 197 086 197</b>	<b>775 010 404</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	160 287 608	137 300 258
Current-year receipts	427 014 000	281 120 000
Conditions met - transferred to revenue	(462 830 765)	(199 424 717)
Surrendered to National Treasury	(108 287 000)	(58 707 933)
	<b>16 183 843</b>	<b>160 287 608</b>

Conditions still to be met - remain liabilities (see note 10).

#### EPWP

Current-year receipts	1 939 000	3 466 000
Conditions met - transferred to revenue	(1 939 000)	(3 466 000)
	-	-

#### RBIG Grant

Current-year receipts	142 596 698	82 228 450
Conditions met - transferred to revenue	(142 596 698)	(82 228 450)
	-	-

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 17. Government grants and subsidies (continued)

#### MSIG

Current-year receipts	940 000	934 000
Conditions met - transferred to revenue	(940 000)	(934 000)
	-	-

#### WSOG Grant

Balance unspent at beginning of year	15 778 738	23 842 142
Current-year receipts	-	20 000 000
Conditions met - transferred to revenue	-	(8 964 719)
Surrendered to Treasury	(12 597 831)	(19 098 685)
	<b>3 180 907</b>	<b>15 778 738</b>

Conditions still to be met - remain liabilities (see note 10).

#### Financial Management Grant

Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
	-	-

#### RTSIG Grant

Balance unspent at beginning of year	222 307	393 205
Current-year receipts	2 069 000	2 063 000
Conditions met - transferred to revenue	(2 291 307)	(2 233 898)
	-	<b>222 307</b>

#### RHIG

Balance unspent at beginning of year	1 178 656	4 000 000
Current-year receipts	4 500 000	4 500 000
Conditions met - transferred to revenue	(5 678 656)	(3 321 344)
Surrendered to Treasury	-	(4 000 000)
	-	<b>1 178 656</b>

Conditions still to be met - remain liabilities (see note 10).

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>18. Other income</b>		
<b>19. General expenses</b>		
Advertising and promotions	2 228 201	2 066 140
Auditors remuneration	6 342 225	5 152 662
Bank charges	284 076	286 510
Cleaning	-	2 161 846
Computer expenses	1 667 748	1 279 686
Consulting and professional fees	18 074 195	33 352 259
Consumables	1 353 522	1 005 576
Laboratories and chemicals	17 252 134	12 381 270
Entertainment	49 921	84 546
Conferences and workshops	65 147	132 452
Insurance	1 820 507	1 088 308
Lease rentals on operating lease	7 835 110	8 187 391
Audit committee costs	496 614	509 917
Fuel and lubricants	10 484 115	12 303 094
Recruitment and retention fees	726 934	456 217
Security (Guarding of municipal property)	22 017 151	21 696 794
Motor vehicle expenses	26 632 096	13 997 718
Subscriptions and membership fees	3 331 829	2 729 260
Telephone and fax	3 901 726	3 013 617
Travel and Subsistence	319 038	325 718
Water, electricity and rates	1 187 170	832 255
Accommodation	2 288 675	2 285 478
Other expenses	57 682 474	50 258 939
Training	899 465	715 634
	<b>186 940 073</b>	<b>176 303 287</b>

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand 2016 2015

### 20. Employee related costs

Basic	185 048 563	164 827 077
Medical aid - company contributions	9 907 787	9 081 226
UIF	1 311 308	1 231 533
SDL	2 240 714	2 018 933
Council levies	67 144	58 152
Leave and bonus pay	26 524 175	15 187 368
Pension fund contributions	27 205 582	23 902 708
Overtime payments	16 715 867	17 545 355
Transport allowance	26 871 706	25 743 948
Housing benefits and allowances	4 391 693	3 459 500
Cellphone allowance	1 536 635	1 463 438
Daily and overnight allowance	373 930	405 664
Group insurance	1 064 874	967 534
Interns allowance	401 631	526 009
Uniform allowance	10 000	30 000
	<b>303 671 609</b>	<b>266 448 445</b>

### Remuneration of municipal manager

Annual Remuneration	1 287 641	1 104 529
Car Allowance	252 521	227 010
Performance Bonuses	-	91 878
Contributions to UIF, Medical and Pension Funds	187 770	886 037
Other	30 564	26 920
	<b>1 758 496</b>	<b>2 336 374</b>

### Remuneration of chief finance officer

Annual Remuneration	-	464 656
Car Allowance	-	112 903
Performance Bonuses	-	84 050
Contributions to UIF, Medical and Pension Funds	-	72 439
Other	-	10 313
	<b>-</b>	<b>744 361</b>

The position of the Chief Financial Officer was vacant during the year and only Acting Allowance was payable to the official in acting capacity

### Director - Corporate Services

Annual Remuneration	942 990	741 764
Car Allowance	194 564	150 598
Contributions to UIF, Medical and Pension Funds	90 404	76 038
Other	25 385	21 337
	<b>1 253 343</b>	<b>989 737</b>

### Director - Community Services

Annual Remuneration	906 149	802 983
Car Allowance	128 253	159 240
Contributions to UIF, Medical and Pension Funds	149 578	116 519
Other	24 990	20 616
	<b>1 208 970</b>	<b>1 099 358</b>

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 20. Employee related costs (continued)

#### Director - Infrastructure and water services

Annual Remuneration	955 792	853 292
Car Allowance	202 787	194 160
Contributions to UIF, Medical and Pension Funds	198 492	153 593
Other	23 869	-
	<b>1 380 940</b>	<b>1 201 045</b>

#### Planning Director

Annual Remuneration	954 038	882 325
Car Allowance	153 573	151 445
Contributions to UIF, Medical and Pension Funds	55 260	52 208
Other	21 788	21 520
	<b>1 184 659</b>	<b>1 107 498</b>

#### Chief Audit Executive

Annual Remuneration	904 832	166 860
Car Allowance	203 974	37 667
Contributions to UIF, Medical and Pension Funds	151 398	31 585
Other	23 329	1 800
	<b>1 283 533</b>	<b>237 912</b>

### 21. Remuneration of councillors

Councillors	16 278 654	10 600 599
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### 22. Debt impairment

Debt impairment	10 897 601	72 229 714
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### 23. Depreciation and amortisation

Property, plant and equipment	63 833 002	63 438 857
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### 24. Impairment of assets

#### Impairments

Property, plant and equipment	20 378	23 482 655
The water and sanitation assets were assessed as being in poor conditions. The recoverable service amount of the asset was based on its fair value less costs to sell or its value in use.		
	20 378	23 482 655
	-	-

Future cash flows are based on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Cash flows projections are based on the most recent financial budget approved by council. The future cash flows is estimated over a period of 5 years unless a longer period can be justified. The recoverable amounts are based on the present value of assets remaining useful service potential. The amounts were determined by using depreciated replacement costs due to the nature of the assets. Discount rate of 9.25% was used in calculating present value

# Sekhukhune District Municipality

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## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>25. Finance costs</b>		
Finance leases and borrowings	1 545 985	864 288
<b>26. Auditors' remuneration</b>		
Fees	6 342 225	5 152 662
<b>27. VIP Sanitation</b>		
VIP Sanitation	242 485 014	86 616 741
The above expenditure represent project expenditure on provision of VIP sanitation to the households. The Assets are transferred immediately when expenditure is incurred.		
<b>28. Grants and subsidies paid</b>		
<b>Other subsidies</b>		
Sekhukhune Development Agency	4 907 641	2 649 160
Grants paid to ME's	-	-
Other subsidies	4 907 641	2 649 160
<b>29. Bulk purchases</b>		
Electricity	38 364 798	33 580 077
Water	103 971 935	76 009 559
	<b>142 336 733</b>	<b>109 589 636</b>
<b>30. Cash generated from operations</b>		
Surplus	267 782 003	29 648 417
<b>Adjustments for:</b>		
Depreciation and amortisation	63 833 002	63 438 857
Gain (loss) on sale of assets and liabilities	735 405	(5 951)
Impairment deficit	20 378	23 482 655
Debt impairment	10 897 601	72 229 714
Movements in provisions	12 912 886	4 475 860
Bad debt recovered	-	(53 958 838)
Transfer of assets	-	7 890 990
<b>Changes in working capital:</b>		
Inventories	(399 161)	1 328 444
Receivables from exchange transactions	(14 500 831)	994 152
Other receivables from non-exchange transactions	(10 312 352)	35 149 187
Payables from exchange transactions	9 760 832	(66 472 125)
VAT	(36 693 338)	220 432 943
Unspent conditional grants and receipts	(158 102 559)	11 931 704
Consumer deposits	528 879	1 474 394
	<b>146 462 745</b>	<b>352 040 403</b>



# Sekhukhune District Municipality

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## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 31. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

• Property, plant and equipment	281 752 031	192 052 698
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##### Not yet contracted for and authorised by accounting officer

• Property, plant and equipment	-	206 404 974
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This committed expenditure relates to plant and equipment and will be financed by conditional grants and retained surpluses,

### 32. Contingencies

Litigation is in the process against the municipality relating to a dispute with awarding of contracts, payments to contractors and employees dismissed to the value of **R 45 246 615** : 2015 (R41 998 463) The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the cases should be resolved within the next year.

### 33. Related parties

#### Relationships

Accounting Officer

Ultimate controlling entity

Controlled entities

Local Municipalities within the district

Refer to accounting officer's report note

Councillors - As on information page

Sekhukhune Development Agency

Ellias Motsoaledi Local Municipality

Ephraim Mogale Local Municipality

Makhuduthamaga Local Municipality

Fetakgomo Local Municipality

Greater Tubatse Local Municipality

Refer to Note 21

Members of key management

#### Related party balances

##### Amounts included in Trade receivable (Trade Payable) regarding related parties

Sekhukhune Development Agency	581 505	581 505
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##### Other 1

Shares in SDA	1 000	1 000
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##### Other 2

Transfers made - Fetakgomo Local Municipality	500 000	7 890 990
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Transfers made - Makhuduthamaga Local Municipality	1 500 000	-
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### 34. Prior period errors

The accruals and expenditure was understated by R5, 067,335.

Overstatement of LNW disputed creditor to the amount of R5, 558, 893

Overstatement of previous year civil project creditors to the amount of R 10,113, 260.

PPE (Buildings) - The understatement was as a result of incorrect valuation of buildings in prior year as identified by the auditors and not corrected before final AFS were issued. R1 183 965

The PPE (Water and sanitation assets) were overstated by R 514 479

The Accumulated depreciation for other assets was understated by an amount of R527 164 due to incorrect depreciation rate used.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 34. Prior period errors (continued)

The water infrastructure assets were understated with an amount of R4 958 661 due to replacements parts not capitalised and the depreciation was understated by R154 152.03

The VAT receivable was understated by R6,398,309 due to input VAT not properly accounted for

Work in progress was overstated with an amount of R55 213 682 in the previous years

The correction of the error(s) results in adjustments as follows:

#### Statement of financial position

Property, plant and equipment	-	(43 641 256)
Accounts payable	-	10 604 798
Retention	-	121 889
VAT Receivables	-	6 398 309

#### Statement of Financial Performance

Depreciation expense	-	176 339
General expenditure	-	970 688

### 35. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 36. Events after the reporting date

On the 03rd of August 2016, a new council was elected and was sworn in on the 26th of August 2016. There are no financial effect to any of the presented and disclosed figures on the AFS

### 37. Unauthorised expenditure

Over spending	-	32 423 782
	-	(32 423 782)
	-	-

The unauthorised is due to overspending in votes (Infrastructure and water services as well in Corporate and Community Services.

### 38. Fruitless and wasteful expenditure

Opening balance	1 077 596	227 708
Incurred during the year	166 704	849 888
<b>Fruitless and wasteful expenditure awaiting authorisation</b>	<b>1 244 300</b>	<b>1 077 596</b>

Fruitless and wasteful expenditure is a result of interest and penalties on late payments.

### 39. Irregular expenditure

Opening balance	613 321 226	498 396 443
Add: Irregular Expenditure - current year	101 306 223	114 924 783
	<b>714 627 449</b>	<b>613 321 226</b>

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>39. Irregular expenditure (continued)</b>		
<b>Analysis of expenditure awaiting condonation per age classification</b>		
Current year	101 306 223	114 666 625
Prior years	613 321 226	498 363 443
	<b>714 627 449</b>	<b>613 030 068</b>
<b>Details of irregular expenditure – current year</b>		
	<b>Disciplinary steps taken/criminal proceedings</b>	
SCM Non compliance for contracts awarded in previous years	None.	101 306 223
<b>40. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	3 464 641	2 549 810
Amount paid - current year	(3 464 641)	(2 549 810)
	-	-
<b>Material distribution losses</b>		
Kilolitres of unaccounted water	7 491 559	5 249 771
Value of unaccounted water	38 915 720	33 737 592
	<b>38 915 720</b>	<b>33 737 592</b>
The material losses disclosed include the free water provided through tankering and non metered supply.		
<b>Audit fees</b>		
Current year subscription / fee	3 356 418	4 779 553
Amount paid - current year	(3 356 418)	(4 779 553)
	-	-
<b>PAYE and UIF</b>		
Current year subscription / fee	38 908 330	38 093 852
Amount paid - current year	(38 908 330)	(38 093 852)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Opening balance	(137 419)	69 992
Current year subscription / fee	58 119 027	49 921 067
Amount paid - current year	(58 130 364)	(50 128 478)
	<b>(148 756)</b>	<b>(137 419)</b>

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>40. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>VAT</b>		
VAT receivable	44 876 615	8 183 277

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

### Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

### 41. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

Several goods and services especially were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. The total amount approved during the year is R3,371,081.75,(2015-R 3,371,081.75)

### 42. Budget differences

#### Material differences between budget and actual amounts

**Service Charges** - The difference is due to the fact that customer data and meter have been audited during the year and additional revenues recognised as corrections were made. We also replaced damaged and non working meters during the year and this resulted in additional revenue.

**Other income** - The budget amount incorrectly included the anticipated refunds from VAT which could not be recognised as revenue as it does not meet the definition of revenue. The 2016/17budget has been corrected in this regard

**Interest received** - The variance between budget and actual amounts is due to the fact that spending on MIG funds was only accelerated in January 2016 when implementing the turn around strategy on grant project spending. The funds were therefore invested for longer period in the 2015/16 year resulting in additional income from interest earned.

**Grants and subsidies** - The variance is due to schedule 6b grants (Indirect grants, RBIG and MWIG) not received as anticipated. For MWIG grants will only be recognised when assets are formally received from DWS and this did not happen during the year.

**Employee costs and Councillor Remuneration** - Increased costs of overtime and travelling has contributed towards over spending on employee costs. The improved grading of the municipality also contributed to the variance as the budgeted amount was done using the old grading.

**Bulk purchases** - Increase in KL of water supplied to Tubatse and Fetakgomo contributed to the increased costs of bulk purchases.

**VIP Sanitation** - The variance is as a result of the implementation of the turn around plan to improve project spending which resulted in an achievement of 97% spending on MIG grant.

**General Expenses** - The variance is as a result of reduction in non priority spending..